

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CRITTENDEN-LIVINGSTON)
WATER DISTRICT FOR AN ADJUSTMENT IN) CASE NO. 2012-00390
RATES PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

ORDER

Crittenden-Livingston Water District ("Crittenden-Livingston District") has applied for an adjustment of its rates for water service. By this Order, the Commission establishes rates that will produce annual revenues from water sales of \$2,352,837, an increase of 17 percent over normalized revenue from water sales of \$2,009,423. The increase will occur in three phases over 28 months and will ultimately increase the monthly bill of a customer who uses 5,000 gallons of water monthly from \$52.40 to \$61.33, or 17 percent.

On August 30, 2012, Crittenden-Livingston District applied for a rate adjustment pursuant to 807 KAR 5:076. On October 26, 2012, after reviewing the application and Crittenden-Livingston District's records, Commission Staff issued a report containing its findings and recommendations regarding the proposed rate adjustment. Commission Staff recommended approval of Crittenden-Livingston District's proposed rates.¹ It further recommended that the Commission direct Crittenden-Livingston District to revise its method for calculating and recording depreciation expense for accounting and

¹ Commission Staff Report on Crittenden-Livingston Water District ("Commission Staff Report") at 7-8 (filed Oct. 26, 2012).

ratemaking purposes.² In its response to this report, Crittenden-Livingston District advised the Commission in writing of its acceptance of the findings and recommendations contained in the report and requested that the matter be submitted for decision based upon the existing record.³ On November 16, 2012, the Commission closed the record and declared the case submitted for decision.⁴

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Except where they conflict with the findings contained in the Order, the findings contained in Commission Staff's Report are supported by the evidence of record, are reasonable, and should be adopted.

2. Crittenden-Livingston District is a water district organized pursuant to KRS Chapter 74.

3. Crittenden-Livingston District owns and operates facilities that distribute water to approximately 3,485 customers in Crittenden and Livingston counties, Kentucky.⁵

4. The calendar year ending December 31, 2011 should be used as the test period to determine the reasonableness of Crittenden-Livingston District's existing and proposed rates.

² *Id.* at 5.

³ Letter from Ronnie Slayden, Superintendent, Crittenden-Livingston Water District, to Public Service Commission (Oct. 31, 2012) (filed Nov. 5, 2012).

⁴ Crittenden-Livingston District is the only party to this proceeding. No persons have sought to intervene in this proceeding.

⁵ *Annual report of Crittenden-Livingston Water District to the Public Service Commission for the Calendar Year Ended December 31, 2011 ("2011 Annual Report")* at 5 and 27.

5. Based upon pro forma test-period operations, Crittenden-Livingston District's pro forma annual revenue from Water Sales, Other Operating Revenues and Interest Income is \$2,063,350.⁶ Approximately \$2,009,423 of this revenue is from water sales.

6. The statement of Crittenden-Livingston District's test-period operations, as adjusted for known and measurable changes, is set forth at Appendix A of this Order.

7. Based upon pro forma test-period operations, Crittenden-Livingston District's pro forma total operating expenses, after adjusting for known and measurable changes, are \$1,415,784.

8. Crittenden-Livingston District proposed to reduce reported depreciation expense by \$131,856 to reflect a change to the service lives that it assigns to certain assets.⁷

9. In lieu of conducting a depreciation study to determine the service lives of its assets or reliance upon its own historic plant records, Crittenden-Livingston District has relied upon the results of the survey of the National Association of Regulatory Utility Commissioners ("NARUC") that contained "a range of average service lives currently being used by water utilities throughout the country for water facilities designed and

⁶ \$2,009,423 (Water Sales) + \$51,828 (Other Operating Revenues) + \$2,099 (Interest Income) = \$2,063,350.

⁷ Crittenden-Livingston District also proposed an increase of \$20,869 to reflect an depreciation on post-test-period plant additions. Its total proposed adjustment to depreciation expense is \$(110,987). App. Attach. G-2.

installed and maintained in accordance with good water works practice”⁸ to make revisions to the service lives of several classes of its assets.⁹

10. The Commission has previously used the same survey to establish the service lives of utility assets.¹⁰

11. Crittenden-Livingston District’s use of the survey to determine the service lives of certain classes of assets is reasonable.¹¹

12. Crittenden-Livingston District compared previously assigned service lives to certain classes of assets and, where these service lives fell outside of or narrowly within the NARUC survey range for an asset, assigned that asset a new service life within the NARUC survey range. Finding that these assets were “at, or near, optimum

⁸ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 10 (referring to the table of typical average service lives upon which Crittenden-Livingston District relied).

⁹ App. Attach. D at 6-7.

¹⁰ See, e.g., Case No. 2009-00370, *Application of Henry County Water District No. 2 for Approval to Adjust Water Rates and Charges, Construct and Finance a Proposed Waterworks Project and Implement a System Development Charge* (Ky. PSC Aug. 12, 2010); Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21, 2007); Case No. 2001-00472, *Proposed Adjustment of the Wholesale Water Service Rate of the City of West Liberty, Kentucky* (Ky. PSC Sept. 30, 2002). The Commission has also adopted Commission Staff recommendations concerning service lives that were based upon this survey. See, e.g., Case No. 2008-00057, *Application of the Grayson County Water District for Approval of a Proposed Increase in Rates for Water Service* (Ky. PSC Oct. 21, 2008); Case No. 2003-00401, *Application of the Lake Village Water Association, Inc., for Approval of a Proposed Increase in Rates for Water Service* (Ky. PSC Feb. 2, 2004); Case No. 92-007, *The Application of Levee Road Water Association, Inc. for a Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC July 10, 1992).

¹¹ The Commission’s use of the NARUC survey to determine service lives does not preclude the use of other surveys of the average lifetimes for the major water and wastewater system components. See, e.g., Commission on Rural Water, *Guide for the Support of Rural Water-Wastewater Systems* (Chicago, Ill. 1974) (cited favorably by the Commission in Case No. 2004-00336, *Joint Application of B & H, Inc. and Richmond Utilities, LLC for Approval of the Transfer of Wastewater Treatment Plant to Richmond Utilities, LLC* (Ky. PSC Dec. 22, 2004).

condition,” Crittenden-Livingston District assigned new service lives that were at the highest portion of the range.¹²

13. Appendix B to this Order sets forth the classes of assets whose service lives Crittenden-Livingston District has adjusted; the previously assigned service life to each class; the newly assigned service life to each class; the service life range that the NARUC survey suggests for each class; and the effect of revising the service life of that class on the level of Crittenden-Livingston District’s test-period depreciation expense.

14. Crittenden-Livingston District’s reassignment of service lives for ratemaking purposes is not unreasonable.

15. Crittenden-Livingston District’s long-term creditors, the average annual principal and interest payment for the five-year period from 2013 through 2017 on the outstanding Crittenden-Livingston District debt that each creditor holds, and the debt service coverage requirement of each creditor is shown in Table 1.

TABLE 1		
Creditor	Average Annual Principal & Interest Payment (2013-2017)	Debt Service Coverage Ratio
Rural Development	\$297,331	1.20
Kentucky Rural Water Financing Corporation	\$508,299	1.20
Kentucky Infrastructure Authority	\$105,039	1.10
Kentucky Association of Counties	\$166,007	1.20

16. Given that Crittenden-Livingston District is a water district, the use of the debt service coverage methodology to calculate its revenue requirement is appropriate and consistent with the Commission’s historic ratemaking practices.¹³

¹² App. Attach. D at 7.

¹³ Crittenden-Livingston District proposes the use of this methodology to determine its revenue requirement. App. Attach E at 1.

17. Applying the debt service coverage requirements to Crittenden-Livingston District's average principal and interest payments for the years 2013 through 2017 results in an annual revenue requirement from water sales of \$2,653,094, or \$643,671 more than the normalized annual revenue from Crittenden-Livingston District's present rates.¹⁴

18. Crittenden-Livingston District proposes to increase its rates for water service in three phases. Based upon normalized test-period sales, the rates proposed for the final phase would produce annual revenue of \$2,352,837.¹⁵

19. The annual revenue produced from Crittenden-Livingston District's proposed rates is \$300,257 less than the level of revenue deemed reasonable using the debt service methodology.

20. Throughout all phases of the implementation of the proposed rate adjustment, Crittenden-Livingston District's proposed rates will produce sufficient

¹⁴ Pro Forma Operating Expenses	\$1,415,784
Add: Five-Year Average Debt Service	1,076,676
Debt Service Coverage	204,831
Debt Service Fee	9,730
Total Revenue Requirement	2,707,021
Less: Total Operating Revenues and Income	(2,063,350)
Required Revenue Increase	<u>\$ 643,671</u>

See Commission Staff Report at 5-6; App. Attach. E at 2.

¹⁵ The phases of Crittenden-Livingston District's proposed increase are:

Phase	Effective Date	Annual Revenue Produced	Increased Revenues	Percentage Increase-Revenues
I	Immediately	\$2,134,177	124,754	6.2
II	14 Months After Phase I	\$2,241,227	107,050	5.0
III	28 Months After Phase I	\$2,352,837	111,610	5.0

revenues for Crittenden-Livingston to remain in compliance with all outstanding debt instrument obligations.¹⁶

21. The record contains no evidence that permitting Crittenden-Livingston District to assess its proposed rates will result in any degradation or reduction in the quality of service that Crittenden-Livingston District currently provides.

22. A utility may propose rates that fail to produce a level of revenues that accepted ratemaking methodologies would regard as insufficient or inadequate. Absent evidence that the quality of the utility's service will decline or be degraded as a result of this level of revenue, the proposed rates should be accepted.¹⁷

23. Crittenden-Livingston District's proposed rates should be approved for service rendered on and after January 1, 2013 in accordance with the proposed implementation schedule.

24. Commission Staff has *sua sponte* recommended that the Commission require Crittenden-Livingston District to use the service lives set forth in Appendix B for both ratemaking and accounting purposes when calculating and reporting depreciation expense.

25. As Crittenden-Livingston District had not objected to Commission Staff's recommendation, as the proposed service lives are within the ranges set forth by the NARUC study, and as a single approach to ratemaking and general accounting

¹⁶ Commission Staff Report at 7.

¹⁷ *Utilities Operating Co. v King*, 143 So.2d 854, 45 PUR3d 439, 443 (Fla. 1962) ("[I]n the absence of some showing that the service to the public will suffer by allowing . . . [a] utility to charge rates which will not produce a fair return, the utility and not the Commission has the right of decision as to the rates it will charge so long as they do not exceed those which would produce a fair return as determined by the Commission."). See also Case No. 2006-00410, *The Application of Hardin County Water District No. 1 for a General Rate Adjustment Effective on and after December 2, 2006* (Ky. PSC Aug. 2, 2007); Case No. 98-398, *Adjustment of Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee* (Ky. PSC June 30, 1999).

treatment of this issue will avoid confusion and incorrect reporting, Commission Staff's recommendation should be implemented.

26. Commission Staff's recommended action has implications beyond this rate case proceeding. Absent a showing of a change in circumstances, it will require the use of these service lives in future rate case proceedings. It may also affect Crittenden-Livingston District's financial statements and reports to all governmental authorities, financial institutions, and lenders. Should Crittenden-Livingston District upon further consideration find that it does not agree with the implementation of Commission Staff's recommendation, it should exercise its right pursuant to KRS 278.400 to petition the Commission for rehearing within 20 days of the date of this Order.

IT IS THEREFORE ORDERED that:

1. Except where they contradict or conflict with the findings contained in this Order, the findings contained in the Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates set forth in Appendix C to this Order are approved for water service that Crittenden-Livingston District renders on and after January 1, 2013.

3. The rates set forth in Appendix D to this Order are approved for water service that Crittenden-Livingston District renders on and after March 1, 2014.

4. The rates set forth in Appendix E to this Order are approved for water service Crittenden-Livingston District renders on and after May 1, 2015.

5. Between February 1, 2014 and February 15, 2014, Crittenden-Livingston District shall notify its customers of the implementation of Phase II rates by causing to

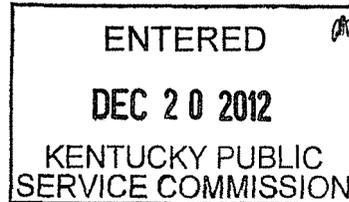
be published at least once in a newspaper of general circulation in its territory notice of these rates or placing an insert notice in bills rendered to its customers.

6. Between April 1, 2015 and April 15, 2015, Crittenden-Livingston District shall notify its customers of the implementation of Phase III rates by causing to be published at least once in a newspaper of general circulation in its territory notice of these rates or placing an insert notice in bills rendered to its customers.

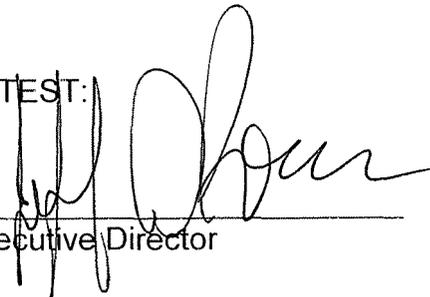
7. Within 20 days of the date of this Order, Crittenden-Livingston District shall file the revised tariff sheets with the Commission setting forth the rates approved in this Order.

8. Crittenden-Livingston District shall for, accounting and ratemaking purposes, use the "Newly Assigned Service Lives" set forth in Appendix B to this Order for the listed classes of assets when calculating and reporting depreciation for all reporting periods after the date of this Order, but shall make no retroactive adjustment to its books to account for the cumulative effect of this change in accounting estimate.

By the Commission



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00390 DATED **DEC 20 2012**

Crittenden Livingston Water District's
Adjusted Operating Statement

Account Titles	Test-Period Operations	Pro Forma	
		Adjustments	Operations
Operating Revenues			
Revenue -- Metered Water Sales	\$ 1,982,261	\$ 27,162	\$ 2,009,423
Other Operating Revenues:			
Miscellaneous Operating Revenues	51,828		51,828
Total Operating Revenues	\$ 2,034,089	\$ 27,162	\$ 2,061,251
Operating Expenses			
Operation & Maintenance:			
Salaries & Wages - Employees	\$ 406,484	\$ (74,086)	\$ 332,398
Employee Pension & Benefits	129,289	6,486	135,775
Purchased Water	631		631
Purchased Power	81,379	(5,262)	76,117
Chemicals	102,371	(6,622)	95,749
Materials & Supplies	149,366	(8,117)	141,249
Contractual Services - Accounting	17,310		17,310
Contractual Services - Legal	175		175
Contractual Services - Water Testing	6,863		6,863
Rental of Equipment	1,000		1,000
Insurance	27,103		27,103
Bad Debt Expense	22,043		22,043
Miscellaneous	4,518		4,518
Total Operation & Maintenance	\$ 948,532	\$ (87,601)	\$ 860,931
Depreciation	616,965	(110,987)	505,978
Amortization	14,011		14,011
Payroll Taxes	34,070	794	34,864
Utility Operating Expenses	\$ 1,613,578	\$ (197,794)	\$ 1,415,784
Net Utility Operating Income	420,511	\$ 224,956	\$ 645,467
Other Income & Deductions:			
Interest Income	2,099		2,099
Net Income Available for Debt Service	\$ 422,610	\$ 224,956	\$ 647,566

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00390 DATED DEC 20 2012

Proposed Modifications to the Service Lives of
Certain Assets of Crittenden-Livingston Water District

Asset Class	NARUC Range	Previous Service Life	Newly Assigned Service Life	Effect on Test-Period Depreciation (\$)
Intake	35 – 45 years	50 years	45 years	1,974
Pumping Stations	35 – 40 years	35 years	40 years	(435)
Water Treatment Plant	35 – 40 years	50 years	40 years	21,942
Storage Facilities	30 – 60 years	50 years	60 years	(2,698)
Transmission and Distribution Mains	50 – 75 years	50 years	75 years	(93,794)
Services	30 – 50 years	35 years	50 years	(51,308)
Meters	35 – 45 years	35 years	50 years	(7,030)
Meter Installations	40 – 50 years	35 years	50 years	470
Hydrants	40 – 60 years	50 years	60 years	(977)

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00390 DATED DEC 20 2012

The following rates and charges are prescribed for the customers in the area served by Crittenden-Livingston Water District for service rendered on and after January 1, 2013. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

5/8-Inch Meter:

First	1,000 gallons	\$ 16.99	Minimum bill
Next	9,000 gallons	9.66	per 1,000 gallons
Next	10,000 gallons	8.28	per 1,000 gallons
All Over	20,000 gallons	6.53	per 1,000 gallons

1-Inch Meter:

First	5,000 gallons	\$ 55.63	Minimum bill
Next	5,000 gallons	9.66	per 1,000 gallons
Next	10,000 gallons	8.28	per 1,000 gallons
All Over	20,000 gallons	6.53	per 1,000 gallons

2-Inch Meter:

First	15,000 gallons	\$ 145.33	Minimum bill
Next	5,000 gallons	8.28	per 1,000 gallons
All Over	20,000 gallons	6.53	per 1,000 gallons

Bulk Sales

6.53 per 1,000 gallons

Wholesale Customer

2.34 per 1,000 gallons

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00390 DATED **DEC 20 2012**

The following rates and charges are prescribed for the customers in the area served by Crittenden-Livingston Water District for service rendered on and after March 1, 2014. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

5/8-Inch Meter:

First	1,000 gallons	\$ 17.84	Minimum bill
Next	9,000 gallons	10.14	per 1,000 gallons
Next	10,000 gallons	8.69	per 1,000 gallons
All Over	20,000 gallons	6.86	per 1,000 gallons

1-Inch Meter:

First	5,000 gallons	\$ 58.40	Minimum bill
Next	5,000 gallons	10.14	per 1,000 gallons
Next	10,000 gallons	8.69	per 1,000 gallons
All Over	20,000 gallons	6.86	per 1,000 gallons

2-Inch Meter:

First	15,000 gallons	\$ 152.55	Minimum bill
Next	5,000 gallons	8.69	per 1,000 gallons
All Over	20,000 gallons	6.86	per 1,000 gallons

Bulk Sales

6.86 per 1,000 gallons

Wholesale Customer

2.46 per 1,000 gallons

APPENDIX E

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00390 DATED **DEC 20 2012**

The following rates and charges are prescribed for the customers in the area served by Crittenden-Livingston Water District for service rendered on and after May 1, 2015. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

5/8-Inch Meter:

First	1,000 gallons	\$ 18.73	Minimum bill
Next	9,000 gallons	10.65	per 1,000 gallons
Next	10,000 gallons	9.12	per 1,000 gallons
All Over	20,000 gallons	7.20	per 1,000 gallons

1-Inch Meter:

First	5,000 gallons	\$ 61.33	Minimum bill
Next	5,000 gallons	10.65	per 1,000 gallons
Next	10,000 gallons	9.12	per 1,000 gallons
All Over	20,000 gallons	7.20	per 1,000 gallons

2-Inch Meter:

First	15,000 gallons	\$ 160.18	Minimum bill
Next	5,000 gallons	9.12	per 1,000 gallons
All Over	20,000 gallons	7.20	per 1,000 gallons

Bulk Sales

7.20 per 1,000 gallons

Wholesale Customer

2.58 per 1,000 gallons

Ronnie Slayden
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